Many happy returns

It has long been a practice in the private sector to offer workers financial incentives to boost performance. But the practice has rarely been used in the public sector.

That changed four years ago when workers in the state treasurer’s unclaimed property division were given the opportunity to earn incentive payments of up to 25 percent of their base salaries for meeting or exceeding goals to increase the amount of money returned to its rightful owners.

Clearly, the incentive program is working.

Since its launch, the average annual amount of unclaimed property funds returned is more than twice as high as prior to its start.

Since July 2013, the division has reunited more than 55,000 Oklahomans with $134.6 million – an average of more than $33.6 million per year and 105 percent higher than funds returned during the four years prior to the program’s start.

Incentives paid to the unclaimed property staff since the program began total less than $283,000, which equates to 21 cents

SEE INCENTIVES PAGE 5

The Effect of Incentives on Unclaimed Property Returns

(in millions of dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Returns under incentives program</th>
<th>Returns prior to incentives program</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY-06</td>
<td>$10</td>
<td>$5</td>
</tr>
<tr>
<td>FY-07</td>
<td>$15</td>
<td>$10</td>
</tr>
<tr>
<td>FY-08</td>
<td>$20</td>
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<tr>
<td>FY-17</td>
<td>$65</td>
<td>$60</td>
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Source: Office of the State Treasurer, Internal Auditor
Guest Commentary
Former U.S. Treasury Secretary Robert E. Rubin
with State Treasurer Ken Miller

A conversation with former U.S.
Treasury Secretary Robert Rubin

Robert E. Rubin, U.S. Treasury Secretary under President Bill Clinton, provided the keynote interview with Treasurer Miller during the National Institute of Public Finance at Pepperdine University on July 23, 2017. The following are excerpts from that conversation.

Miller: The average growth rate during the Clinton years was, over the presidency, 3.8 percent, according to the Washington Post, which today sounds unrealistic.

Rubin: Well, I think sadly, it is unrealistic today. Let me just add one thing to the growth rate because it is true we had about 3.8 percent growth, but we also had significantly increasing incomes at all quintile levels. The participation was really broad based. In 1998, for the first time in 30 years, we had a balanced budget. Productivity went way up and the poverty rate went down. It was a remarkable period.

There were a lot of things that contributed. I personally think President Clinton’s policies made a very large contribution, but a lot of other things did, too, including technological development.

On the other hand, if you look at that period, the 90s, that same technological development was available to us, the Japanese, and the Europeans. The only country that had the investment that was necessary to get the benefit of the new technology was the United States.

I think today, the Federal Reserve Board and the Congressional Budget Office are both projecting a long-term full employment potential rate of growth in the United States’ economy at 1.8 percent, assuming no policy changes.

Jason Furman, who was head of the Council of Economic Advisors under President Obama, about a year before the end of that administration, said to me, “I think we could change that from 1.8 to 2.3 percent, if we had good policies.”

But, Ken, we just haven’t had the policies needed to do that.

We could have a debate about what policies we should have. You and I might even have some differences,

SEE RUBIN & MILLER PAGE 3
that’s no problem. Debate isn’t the problem. The problem is debate should be based on the facts and analysis and then willingness to compromise, instead of ideology and politics.

I think if you had really good policies, inclusive growth, and if you had dealt with the skills gap, I think you could get to 2.3 percent. Economists I know and respect think you could get to 2.2, maybe 2.4 percent on an ongoing basis, but you’ve got to have good policy, which we don’t have.

Miller: The first budget you presented was the centerpiece of the Clinton economic agenda – deficit reduction a huge part of that – narrowly passed even with control of both chambers. We were talking about that beforehand, the Vice President broke the tie. The vote was close, but it was enacted. You had great growth and deficit reduction, and then how many years of surplus?

Rubin: In 1997, we had another major fiscal measure – the balanced budget agreement. You had a situation in which he (President Clinton) and (U.S. Senator) Trent Lott each accepted some measures they didn’t like in order to get something that, on balance, they thought was a lot better than the status quo. That’s the way the political system should work. They both took credit for it. They both deserve credit for it. By 1998, only one year later, we had the first surplus in 30 years, we projected surplus into the indefinite future.

Under President Bush – and this is not a partisan political comment, just a reality – you had two tax cuts, a war, and Medicare Part D, which I think was a good thing to have, but it didn’t have any provisions to pay for it – so none of that was paid for and everything we did fiscally was reversed.

Miller: You wrote in an article, “Despite our problems, the U.S. still has the world’s best long-run hand and our future will be determined on how well we play that hand.” You suggest a growth agenda that is focused on public investment, structural reform and renovation, and long-term fiscal outlook.

Rubin: I would rather invest in the United States than any other country in the world. I would rather do business here than in any other country in the world. And I’d rather play our hand, but we face enormous policy challenges. If we don’t meet those challenges, we’re not going to realize our potential. For the past decade, with the exception of a few measures that were passed, our political system has been in paralysis.

We have to get past that and get back to where we have a functioning government. And that isn’t just a question of President Trump, whether you like him or don’t like him, it goes much beyond that because Congress was dysfunctional well before he became president.

As far as these particulars are concerned, our fiscal trajectory is terrible. Our debt-to-GDP ratio, now at about 78 percent, is projected by the Congressional Budget Office to be 91 percent by the end of the decade. In 25 to 30 years, it is projected to be 140 percent. We can’t live with that. I believe it is already to some extent affecting confidence, but in the longer term will severely undermine business confidence.

It certainly is affecting our resilience. If something bad happens now, it’s much harder for us to deal with it than if we had a lower debt-to-GDP ratio. It creates the risk at least of financial and economic disruption at some point and it is squeezing us right now in terms of our ability to engage in public investments. We have to solve that. Nobody wants to face
Rubin & Miller

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it in the political world. There are no easy answers. I think there are some interesting ways to think about this that are outside the usual framework, but it’s going to take tough political decisions that nobody wants to make.

Public investment, we definitely need in all kinds of areas, but I’ll mention two that are most on my mind. One is everything related to the skills gap. The world is changing technologically. If you take artificial intelligence, machine learning, 3-D printing, and all else in the technological environment, I think the rate of technological development is likely to continue to be very rapid and have a huge impact on our economy. That is a tremendous opportunity for productivity, but it creates pressure on wages and jobs. The challenge is to realize the opportunity and then deal with the pressure.

I think a lot of the meeting of that challenge lies in the question of equipping the American worker to succeed in a rapidly changing economy. Globalization is another factor in that, but not nearly as much as technology. I think we need life-long learning, probably subsidized. I think we need apprenticeships, probably subsidized. I think we need, in some fashion, to overcome poverty. The child poverty rate in the United States is 20 percent. That cannot bode well for the future of this country.

In Silicon Valley, there are a lot of people advocating that we have a guaranteed annual income. I do not think that is a good idea. I think it’s quite a terrible idea. Good work provides not only income, which is critical, but it provides a sense of self, a sense of identity, a sense of self-worth.

What I think we probably need to do – and I suspect this will be controversial – but given that we are losing the entry level jobs in manufacturing, I think we need public employment. Maybe it’s transitional. Maybe it’s long term. There are very important public purposes that could be served so we get real economic value. Infrastructure, for example. And it could even be conducted in the private sector, as long as, and it would probably have to be subsidized to do this, but as long as it is employing the kind of people who can’t otherwise find entry level jobs into our economy.

Criminal justice reform is part of this. I think we need a vast change in our criminal justice system. We have massive excess incarceration, and, when people are released from prison, we give them no opportunity to really get back into the mainstream. I think it is a massively important economic issue. And these are economic issues, as well as moral and social issues.

Miller: One of the things that I appreciate as a student of economics, is everything comes back to an economic argument with you – whether it’s infrastructure investment, deficit reduction, or the effect on interest rates. You had an article recently about the effect of investing in social safety-net programs surrounding the conversation around tax reform. So I’d like for you to touch on that.

Rubin: During the height of the health care reform debate earlier this year, along with the tax reform and tax cut debate, I wrote an op-ed (Why hurting the poor will hurt the economy, Washington Post, March 10, 2017) saying that whatever you may think of Medicaid from a social and moral point of view, I think it is an economic imperative. Because what I think we need to do is provide low-income individuals with access to health care, nutrition and education so they can be equipped to be effective members of the workforce. If we do, we’ll greatly reduce our social costs and we will increase productivity. So I say if you don’t like them morally, don’t like them socially, you need them economically. They’re economic imperatives and it’s a good public investment with a high rate of return.
Oklahoma GDP rises for second consecutive quarter

Oklahoma’s Gross Domestic Product (GDP) rose by 1.9 percent during the first quarter of calendar year 2017, according to recently-released data from the Bureau of Economic Analysis.

It marked the second consecutive quarter of positive growth for the state, following four quarters in which economic output contracted.

The figures confirm what would appear to have been a one-year recession, as measured by two or more consecutive quarters of negative economic growth.

The strongest growth in the latest figures is in the Mining and Logging supersector, which includes the state’s oil and gas industry.

paid in incentives for every $100 in unclaimed property returned.

Fixing a stagnant program

The impetus for the incentive program came from Treasurer Ken Miller, a Ph.D. economist, as a way to boost output after several years of level returns.

During FY-13, the last year before the incentive program was started, returns topped $18 million – a record high – but returns had averaged just slightly less, about $16 million annually, for several years.

During its first year, the incentive program boosted returns to $30.1 million. The following year, $38.7 million was reached. FY-16 saw $31.1 million returned, and during the just completed FY-17, returns totaled $34.6 million.

Starting the program required a leap of faith. Concerns about public perception of offering what some might call bonus payments had to be weighed against the potential of reuniting many more Oklahomans with their lost money.

The program initially began as a pilot project, but with such strong results, it quickly became a permanent operation.

No tax money used

No tax money is used to fund the incentives. Unclaimed property administration, including all payroll costs, is funded through a 4 percent allocation of unclaimed property funds.

However, for many years the office has not used the entire 4 percent allocation and has returned some of it to the Legislature to be used for other appropriations.

Regardless of the operational costs and incentive payments, all rightful claims are paid in full with no fee assessment. The program has always been provided as a free public service.
FY-17 Gross Receipts & General Revenue compared

Gross Receipts to the Treasury during FY-17 totaled $11 billion, compared to $5 billion, or 46%, that was allocated to the General Revenue Fund (GRF).

In the month of June, the GRF received 54.1% of gross receipts. The monthly percentages varied from 32.7% to 54.1% during the fiscal year.

From FY-17 gross receipts, the GRF received:

- Individual income tax: 55.3%
- Corporate income tax: 32.6%
- Sales tax: 43.9%
- Gross production-Gas: 64.6%
- Gross production-Oil: 9.8%
- Motor vehicle tax: 28.3%
- Other sources: 46%

FY-17 GRF allocations were below the estimate by $175.9 million, or -3.4%. June allocations were higher than the estimate by $17.9 million, or 3.4%.

Fiscal year insurance premium taxes totaled $250 million, a decrease of $5.4 million, or -2.1%, from the prior year.

Tribal gaming fees generated $133.9 million during FY-17, up by $1.9 million, or 1.4%, from FY-16.

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July Gross Receipts to the Treasury show strong start for new fiscal year

July Gross Receipts to the Treasury provide additional evidence of an expanding Oklahoma economy with total collections topping the July 2016 report by almost nine percent, State Treasurer Ken Miller announced on August 7.

Collections during each month of calendar year 2017, except for March, have shown growth. July receipts of $926.9 million are up by $73.1 million, or 8.6 percent, compared to July of last year.

“The body of evidence supporting economic recovery is growing,” Miller said.

“Gross receipts show ongoing expansion, as do employment reports and broader measurements, such as the latest state Gross Domestic Product (GDP) release.”

The federal Bureau of Economic Analysis reported in late July that Oklahoma’s GDP rose for a second

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Monthly Gross Receipts vs. Prior Year

<table>
<thead>
<tr>
<th>Month</th>
<th>Income Tax</th>
<th>Gross Production</th>
<th>Sales Tax</th>
<th>Motor Vehicle</th>
<th>Other Sources</th>
<th>Total Revenue</th>
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<td>$257.7</td>
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<td>$157.2</td>
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<td>$7.5</td>
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<td>Mar-17</td>
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<td>May-17</td>
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<td>Jun-17</td>
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<td>Jul-17</td>
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</tbody>
</table>

Dollar change (in millions) from prior year

Source: Office of the State Treasurer
Revenue
FROM PAGE 6

consecutive quarter, up by 1.9 percent during the first quarter of 2017, following four quarters of contraction – classically defined as a recession.

All major revenue streams expanded in July compared to the prior year.

Gross production tax collections are higher than the prior year for a tenth consecutive month. July receipts from the production of oil and natural gas generated $41.9 million, an increase of $11.4 million, or 37.4 percent.

Income, sales, and motor vehicle taxes show increases ranging from 6 percent to 12.5 percent during the month.

Gross receipts for the past 12 months, at $11 billion, are less than the total from the previous period by only $2.8 million, or 0.03 percent.

Growth in gross production collections is driving the shrinking margin. Individual income and sales tax receipts trail the prior 12 months by less than one percent each.

Revenue raising measures not reflected

Legislation enacted last session that will result in increased revenue for the state is not yet reflected in gross receipts.

The Oklahoma Tax Commission reports any additional revenue raised due to law changes will not begin to impact the reports until next month.

Other indicators

After showing anticipated economic growth for six consecutive months, the Oklahoma Business Conditions Index dropped in July. The overall index was set at 49.4 in July, down from 57.7 in June. Numbers below 50 indicate anticipated negative growth in the next three to six months.

The energy sector continued to bring strength to the index, while slight weakness in the manufacturing sector lowered the overall rate.

July collections

Receipts for July set gross collections at $926.9 million, up $73.1 million, or 8.6 percent, from July 2016.

Gross income tax collections, a combination of personal and corporate income taxes, generated $273.3 million, an increase of $15.6 million, or 6 percent, from the previous July.

Personal income tax collections for the month are $258.6 million, up by $12.6 million, or 5.1 percent, from the prior year. Corporate collections are $14.7 million, an increase of $3 million, or 25.5 percent.

Sales tax collections, including remittances on behalf of cities and counties, total $386.5 million in July. That is $31.1 million, or 8.7 percent, more than July 2016.

Gross production taxes on oil and natural gas generated $41.9 million in July, an increase of $11.4 million, or 37.4 percent, from last July. Compared to June reports, gross production collections are up by $293,860, or 0.7 percent.

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Revenue
FROM PAGE 7

Motor vehicle taxes produced $68 million, up by $7.5 million, or 12.5 percent, from the same month of last year.

Other collections, consisting of about 60 different sources including use taxes, along with taxes on fuel, tobacco, horse race gambling and alcoholic beverages, produced $157.2 million during the month. That is $7.5 million, or 5 percent, more than last July.

Twelve-month collections

Gross revenue totals $11 billion from the past 12 months. That is $2.8 million, or 0.03 percent, less than collections from the previous 12 months.

Gross income taxes generated $3.9 billion for the August 2016-July 2017 period, reflecting a decrease of $150.3 million, or 3.7 percent, from the August 2015-July 2016 period.

Personal income tax collections total $3.5 billion, down by $30 million, or 0.8 percent, from the prior 12 months.

Corporate collections are $403.7 million for the period, a decrease of $120.3 million, or 23 percent, over the previous period.

Sales taxes for the period generated $4.2 billion, a decrease of $14.5 million, or 0.3 percent, from the prior year.

Oil and gas gross production tax collections brought in $454.1 million during the past 12 months, up by $98.1 million, or 27.5 percent, from the previous 12-month period.

Motor vehicle collections total $761.1 million for the period. This is a drop of $11 million, or 1.5 percent, from the trailing period.

Other sources generated $1.6 billion, up by $53 million, or 3.4 percent, from the previous 12 months.

About Gross Receipts to the Treasury

Since March 2011, the Office of the State Treasurer has issued the monthly Gross Receipts to the Treasury report, which provides a timely and broad view of the state’s macro economy.

It is provided in conjunction with the General Revenue Fund allocation report from the Office of Management and Enterprise Services, which provides important information to state agencies for budgetary planning purposes.

The General Revenue Fund receives less than half of the state’s gross receipts with the remainder paid in rebates and refunds, remitted to cities and counties, and placed into off-the-top earmarks to other state funds.

June state unemployment rate unchanged at 4.3 percent

Oklahoma’s seasonally-adjusted unemployment rate remained at 4.3 percent for a fourth consecutive month in June, figures released by the Oklahoma Employment Security Commission show.

State jobless numbers improved by seven-tenths of a percentage point over the year.

The Oklahoma rate is one-tenth of a percentage point lower than the June U.S. jobless rate after being set at the same rate during the prior month.

<table>
<thead>
<tr>
<th>June 2017</th>
<th>Unemp. rate*</th>
<th>Labor force*</th>
<th>Employment*</th>
<th>Unemployment*</th>
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<td>Oklahoma</td>
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<td>United States</td>
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<td>OKLAHOMA</td>
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<td>May ‘17</td>
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* Data adjusted for seasonal factors

Source: OESC
Economic Indicators

Unemployment Rate
January 1980 – June 2017

Gross Receipts vs. Oil & Gas Employment
January 2008 – July 2017

Leading Economic Index
January 2001 – June 2017

Oklahoma Stock Index
Top capitalized state companies
January 2009 – July 2017

Oklahoma Natural Gas Prices & Active Rigs
January 2011 – July 2017

Oklahoma Oil Prices & Active Rigs
January 2011 – July 2017